MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2015/2016

BFN 3114 – TAX PLANNING

(Section BO1)

1 JUNE 2016
9.00 a.m. – 11.00 a.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **NINE (9)** printed pages including cover page with 3 questions only.
2. Answer **ALL** questions.
3. Answer all questions in the answer booklet provided.
4. Marks allocations are shown at the end of each question.

QUESTION 1

a) Amos Teoh, a Malaysian tax resident, is married to Stephanie and has a 19 year old disabled son, Benjamin. Benjamin a handicapped child certified by Welfare Department is pursuing a full-time degree at University Science Malaysia. He received a full scholarship from a multi-national company in Malaysia. Stephanie has no income.

Amos Teoh is employed by Pamoga Berhad as a finance officer based in Penang, Malaysia. Details of his employment income for the year 2015 are as follows:

- A salary of RM54,000.
- An entertainment allowance of RM3,500. During the year 2015, Amos Teoh spent RM2,000 on entertaining the company's clients.
- Employees' provident fund (EPF) contributions by Pamoga Berhad was RM6,480. Amos Teoh made EPF contributions of RM5,940.

Pamoga Berhad also provided Amos Teoh with the following benefits during the year 2015:

- Semi-furnished accommodation for 12 months. Pamoga Berhad paid a monthly rental of RM2,200 for an apartment which included RM200 for the furniture in the lounge and dining room.
- Medical benefits of RM300.
- Toyota Vios car costing RM95,000 when new and for which the fuel cost was borne by Amos Teoh himself.

Details of Amos Teoh's other expenditure for the year 2015 are as follows:

- Medical expenses for a weight reduction and wellness program for his wife costing RM2,400.
- A donation of goods worth RM8,000 to an approved institution.
- Deferred annuity premium paid of RM3,000.
- Books purchased for his own personal use of RM1,300.
- Electronic wheelchair costing RM7,000 for his disabled son, Benjamin.

Besides employment income, Amos Teoh also received RM4,000 as a commission from his neighbor for assisting him in securing a buyer for the sale of the neighbor's small office at Seberang Jaya, Penang.

Required:

Compute the income tax charged on Amos Teoh for the year assessment 2015 under the Income Tax Act 1967 (as amended).

Note: You should indicate by the use of the word 'nil' for any item referred to in the question for which no adjusting entry needs to be made in the tax computation. Round-up all figures. Marks will be awarded for the appropriate labelling of the stages of income.

(30 marks)

Continued...

b) Mr. Bernerd Chew aged 45, is the factory Manager of Smart Electronic Berhad which manufactures electronic components for export to its holding company in Canada. He incurred the following expenses in 2015:

1. Medical expenses of RM25,000 for his parents.
2. Bought for the first time a laptop computer for his personal use for RM1,400 and a smart phone for RM2,900.
3. He paid premiums on life insurance policies, RM4,500.
4. He contributed to the employees' provident fund, RM7,920.
5. He spent RM5,800 for time and stress management training fees for 4 days.

Required:

List the total amount of relief available to Mr. Bernerd Chew for the year of assessment 2015.

(10 Marks)
[Total: 40 Marks]

QUESTION 2

a) Johannes is a German citizen. He came to Malaysia on 1 October 2011 to assist Malaysian entrepreneurs in setting up business in creative industry. He signed up 2 years contract with Aquitas Qreatif Sdn Bhd. After two years, his contract was renewed for another 24 months. Johannes did not travel to any destination outside Malaysia during the four years period, except for Christmas Eve. He travelled back to his country on 22nd December of each year of the contract to celebrate Christmas with his family. He came back to Malaysia on 30 December, a week after spending the time there. He left Malaysia permanently on 30 September 2015, immediately at the end of the contract.

Required:

Determine the residence status of Johannes for the years of assessment 2011 to 2015 explaining the basis for your determination.
Note: You are required to quote the relevant sections of the law where appropriate.

(10 marks)

b) Ranjeet and Lim are Malaysian citizens. They are partners in a consulting firm in Malaysia. Under the partnership agreement, they agreed to share profit and losses equally. Ranjeet and Lim are entitled for salary of RM32,000 and RM24,000 per annum respectively. Both of them are also entitled for return on capital contribution of RM10,000 per annum.

For the year ended 31 December 2015, the partnership had provisional adjusted income of RM94,000 and was entitled to capital allowances of RM15,000. During the year 2015, the partnership paid a private expense for Ranjeet and Lim of RM3,000 and RM4,00 respectively.

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Required:

For the year of assessment 2015, compute the following in respect of the partnership:
(i) the divisible income of the partnership and
(ii) the statutory income of Ranjeet and Lim.

(10 marks)
[Total: 20 marks]

QUESTION 3

Serena is a sole proprietor of Serena Café, operating at the Street Mall of Cyberjaya. Since its commencement in 2010, the café has received good response and demand from its customers. Other than selling foods and beverages, it also took order for catering from individuals, and organisations.

Serena makes up the café's accounts to 31 December each year and the following information relates to its year ended 31 December 2015.

	Note	RM	RM
Sales from foods and beverages		189,000	
Sales from catering		138,000	327,000
Less: Cost of sales	1		(166,000)
Gross profit			161,000
Add: Other income			
Gain on disposal of investment property	2	65,000	
Dividend	3	6,000	71,000
			232,000
Less: Expenses			
Salaries and wages	4	98,000	
Repair and maintenance expenses	5	15,000	
Donation	6	3,000	
Depreciation	7	20,000	
General and administrative expense	8	3,500	
Entertainment expense	9	8,000	
Legal and professional fees	10	5,000	
Provision for bad and doubtful debts	11	6,000	
Other expenses	12	38,000	196,500
Net profit before taxation			35,500

Notes:

(1) The cost of sales includes obsolete inventories written off of RM12,500 and provision for stock obsolescence of RM10,000.

(2) Serena acquired a property in Putrajaya for an amount equivalent to RM290,000 and disposed of it for RM400,000. The gain after deducting all relevant disposal costs was RM65,000 and it was received on 30 September 2015.

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(3) The single tier dividends in total of RM6,000 were received on 30 September 2015 from several companies listed in Bursa Malaysia.

(4) Salaries and wages include payments made to the owner for the salary, EPF contributions for the owner, and owner's family leave passage of RM12,000, RM1400 and RM5,000 respectively.

(5) Repair and maintenance expenses include:

	RM
Cost of purchasing two air conditioners	1,600
Cost of purchasing refrigerator	1,200
Dining utensils replacement	1,000
[Dining utensils have normal working life of less than 2 years]	
Cleaning and repainting the café	3,200
Service and maintenance costs of business vehicles	3,000
Installation of a ramp for disabled customers at the cafe	5,000

(6) Serena donated hampers worth RM1,000 and cash RM2,000 to an approved charitable institution.

(7) Depreciation of RM20,000 was on the cafe's property, plant and equipment charged during the year, including new assets bought during the year.

(8) General and administrative expense incurred is trade related.

(9) Entertainment expenses include:

	RM
Free drink vouchers for customer who had spent a minimum of RM50 per receipt in the cafe	2,000
Marketing expense	1,000
Staffs' family day	5,000

(10) Legal and professional fees:

	RM
Tax fees for appealing against a penalty on a late tax payment	800
Summon by police for traffic offences	1,200
Legal fees for renewal of a tenancy agreement	1,300
Interest expense from bank borrowings on terms loan used for working capital of the café.	1,700

(11) Provision for bad and doubtful debts:

	RM
General provision for trade receivables (catering)	4,000
Specific provision for trade receivables (catering)	2,000

(12) Other expenses include:

	RM
Water and electricity	11,500
Medical expenses for Serena's family members	2,200
Insurance premiums for fire and flood policies of the business's stock, property, plant and equipment.	3,700

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(13) Other information
Serena is eligible to claim capital allowance of RM18,000 for the year of assessment 2015 on assets used in the business.

Required:

Commencing with the net profit before taxation, compute the total income of Serena Café for the year of assessment 2015 under the Income Tax Act 1967 (as amended).

Note: Your computation for the business should start with the 'net profit before taxation' figure and follow the descriptions used in the notes to the income statement. Indicate 'nil' in the appropriate column for any item that does not require adjustment. You do not need to provide explanation of the adjustments made.
Marks will be awarded for appropriate labelling of the stages of income.

[Total: 40 marks]

End of question

Tax rate for resident individual (year of assessment 2015) **Appendix 1**

Chargeable Income	Calculations (RM)	Rate %	Tax(RM)
0-2,500	On the First 2,500	0	0
2,501-5,000	Next 2,500	0	0
5,001-10,000	On the First 5,000		0
	Next 5,000	1	50
10,001-20,000	On the First 10,000		50
	Next 10,000	1	100
20,001-35,000	On the First 20,000		150
	Next 15,000	5	750
35,001-50,000	On the First 35,000		900
	Next 15,000	10	1,500
50,001-70,000	On the First 50,000		2,400
	Next 20,000	16	3,200
70,001-100,000	On the First 70,000		5,600
	Next 30,000	21	6,300
100,001-150,000	On the First 100,000		11,900
	Next 50,000	24	12,000
150,001-250,000	On the First 150,000		23,900
	Next 100,000	24	24,000
250,000 – 400,000	On the First 250,000		47,900
	Next 150,000	24.5	36,750
Exceeding 400,000	On the First 400,000		84,650
	On amount exceeding 400,000	25	.....

Non-Resident Individual Rate for employment income (year of assessment 2015)

Non-resident person other than companies: 25%

Companies Rates (year of assessment 2015)

(a) Company with paid up capital of RM 2.5 million and below at the beginning of the basis period for a year of assessment
On the first RM 500,000 chargeable income: 20%
On subsequent chargeable income: 25%

(b) Other companies (resident, non resident) 25%

Capital allowances

	Initial Allowance	Annual Allowance
Office equipment, furniture and fittings	20%	10%
Plant and machinery – general	20%	14%
Plant and machinery (heavy) and motor vehicle	20%	20%
Industrial building	10%	3%

Benefits in Kind (BIK)

(a) Household Furnishings, Apparatus & Appliances

	Types Of BIK	Annual Value Of BIK
(a)	Semi-furnished with furniture in the lounge, dining room or bedrooms.	RM 840 (RM 70 per month)
(b)	Semi-furnished with furniture as in (a) above and one or more of the following: air-conditioners, curtains and carpets	RM 1,680 (RM 140 per month)
(c)	Fully-furnished with benefits as in (a) and (b) above with one or more of the following: kitchen equipment, crockery, utensils and appliances.	RM 3,360 (RM 280 per month)
(d)	Service charges and other bills such as for water, electricity and telephone.	Service charges and bills paid by the employer.

Gardener	RM 3,600 per annum
Domestic servant	RM 4,800 per annum
Driver	RM 7,200 per annum

(b) Value of motor vehicles

Cost of vehicles (new) RM	Annual Value of BIK RM	Fuel per annum RM
Up to – 50,000	1,200	600
50,001 – 75,000	2,400	900
75,001 – 100,000	3,600	1,200
100,001 – 150,000	5,000	1,500
150,001 – 200,000	7,000	1,800
200,001 – 250,000	9,000	2,100
250,001 – 350,000	15,000	2,400
350,001 – 500,000	21,250	2,700
500,001 – and above	25,000	3,000

Personal relief and allowances applicable for the year of assessment 2015

	RM
Self	9,000
Disabled self	6,000
Medical expenses expended for parents	5,000
Medical expenses expended on self, spouse or child with serious disease, including up to RM500 for medical examination	6,000
Basic supporting equipment for disabled self, spouse, child or parent	6,000
Fees expended for skills or qualifications	5,000
Expenses on books for personal use	1,000
Spouse relief	3,000
Disabled spouse - additional	3,500
Child each (below 18 years of age)	1,000
Child each (18 years and above, unmarried and further higher education)	6,000
Disabled child each (unmarried)	6,000
Life insurance premiums & contributions to approved provident funds (max)	6,000
Private retirement scheme and annuity premium (max)	3,000
Medical or education insurance premiums for self, spouse or child	3,000
Purchase of a personal computer	3,000
Interest paid on housing loans	10,000
Purchase of sports equipment	300

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